

VERMONT PENSION INVESTMENT COMMITTEE
October 27, 2011

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2013

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Member(s) Absent:

None

VPIC Alternate Members Present:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

Also attending:

Steve Wisloski, Deputy Vermont State Treasurer

Matt Considine, CFA, Director of Investments

Jaye Pershing Johnson, Attorney General's Office

Christopher Levell and Doug Moseley, NEPC LLC

Linda Deliduka, VSTRS Alternate Representative

Joel East, J.P. Morgan

Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Thursday, October 27, 2011 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval, Announcements, and Minutes of September 27, 2011 Regular Meeting

On a motion by Mr. Mackey, seconded by Mr. Johannesen, the Committee unanimously approved the agenda for the October 27, 2011 meeting.

The Chairperson, Mr. Rauh indicated there did not need to be a motion to approve the agenda. Mr. Mackey indicated he would prefer that the Director of Investments Report not be at the end of the agenda. Mr. Rauh indicated he would take a look at that issue. Mr. Altemus indicated he enjoyed having the Dashboard discussion at the end of the meeting.

Mr. Hooper indicated the expense for attending the Super Bowl of Indexing Conference would be \$534 plus airfare. Mr. Hooper indicated he will complete the necessary paperwork in order to attend the conference.

On a motion by Mr. Mackey, seconded by Mr. Johannesen, the Committee unanimously approved Mr. Hooper's request to attend the Super Bowl of Indexing Conference.

The Committee requested Mr. Hooper present feedback after he attended the conference.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously approved the minutes of the September 27, 2011, Regular Meeting, as submitted.

ITEM 2: Discussion Items/Updates

- **Contract Updates**
- **Brandywine Guideline Revision Update**
- **Review September Flash Report**
- **NEPC Manager Watch List Updates: Mellon, Acadian, Post Advisory, GAM**

Mr. Considine advised the Committee the Brandywine language is finalized. Ms. Johnson advised the Committee J. P. Morgan is in process for a June start date.

Mr. Moseley reviewed the September 2011 Flash Report with the Committee. Mr. Moseley indicated the three composites were at (4.7)% for the month of September. The year-to-date returns were as follows: (2.6)% for VSTRS, (2.4)% for VSERS, (2.3)% for VMERS and (2.3)% for BERS, in all cases gross of fees.

(Mr. Gaffney arrived during this item.)

Mr. Mosley indicated he can also use Barclays as a comparison for the PIMCO Unconstrained. Mr. Wisloski indicated the Allianz benchmark should be the ten-year Treasury note. Mr. Moseley indicated he will put a footnote and color code it when a fund has not had money in it long enough to have numbers in the last year, three, five and seven years. Mr. Moseley indicated he will provide a separate sheet on hedge funds.

Mr. Moseley advised the Committee that Acadian and Post have been removed from the watch list. Mellon and GAM still remain on the watch list.

Mr. Considine advised the Committee about the outcome of his meeting with Allianz. The Committee discussed Allianz's performance during past and present markets. There was a discussion about sovereign debt.

ITEM 3: **Action Items**

- **Risk Metrics Contract Amendment for Proxy Voting (due 12/31)**

Mr. Wisloski indicated Risk Metrics is now ISS. Mr. Johannesen had an inquiry concerning executive compensation. Mr. Wisloski indicated he will ask ISS for any reports or information they have concerning that issue.

On a motion by Mr. Jeffrey, seconded by Mr. Johannesen, the Committee approved the one-year extension of the ISS/Risk Metrics contract for proxy voting until 12/31/2012.

ITEM 4: **Discuss FY 2011 Actuarial Reports**

- **Funded Status and Cash Flow**
- **Implications for Individual Plan Asset Allocation**

Ms. Pearce led the Committee in a discussion of the *Draft Notes Comments on Valuation Results Development of ARC* handout. The Committee discussed all three pension plans. There was a discussion about the funded status and the cash flow of all three plans.

(Karen Paul entered the meeting during this item.)

Ms. Pearce led the Committee in the review of the *VSTRS Historical Data Trends* document, which she provided. There was a lengthy discussion concerning the funding of the teachers' health plan. There was a discussion relative to the comparison of a DB and DC plan. It was indicated that a DB plan is cheaper because of the risk pooling. Ms. Pearce indicated she had a report on risk pooling that she will provide to the Committee.

Ms. Pearce reviewed with the Committee the *VSTRS Retiree Health Insurance Overview* dated July 22, 2010. Ms. Pearce described EGWP (Employer Group Waiver Plan) and EERP (Early Retirees Reinsurance Program) to the Committee.

(A recess was taken from 10:30 a.m. to 10:40 a.m.)

The Committee discussed the asset allocation of the three pension plans. Mr. Levell indicated NEPC will prepare recommendations for any potential changes in the asset allocations for the three pension plans for the February meeting. Ms. Pearce indicated she will discuss asset allocation ideas with Mr. Levell and Mr. Driscoll.

(Ms. Pearce left the meeting at 11:15 a.m., after giving Mr. Wisloski the right to vote in her absence.)

ITEM 5: Portfolio Structure Work Plan – Illiquid Investment Options (Real Estate, Private Equity/Debt)

Mr. Moseley and Mr. Levell led the Committee through the *Portfolio Structure Work Plan – Illiquid Investment Options* document. The Committee discussed private equity and real estate in detail. NEPC recommended that VPIC establish an initial position in private equity with a single fund-of-funds manager that can offer a variety of different private equity strategies. NEPC discussed the strategy categories. NEPC indicated they will have a list of potential managers to discuss at the December VPIC meeting.

Mr. Moseley indicated NEPC is also recommending that VPIC add to its real estate holdings with non-US properties and debt products. The Committee decided to consider this in early 2012 after the asset allocation discussions have been finished.

(A luncheon recess was taken from 12:20 p.m. to 1:00 p.m.)

(Ms. Paul, Mr. Considine, Ms. Pearce, and Ms. Johnson were not present at this time.)

ITEM 6: Comprehensive Manager Reviews/Active Risk Follow-up

NEPC reviewed its recommendations contained in the *Manager Review & Active Risk Budgeting Follow-up* document.

(Ms. Johnson entered the meeting during this item. Ms. Pearce returned to the meeting at 1:25 p.m.)

The Committee discussed NEPC's recommendations.

On a motion by Mr. Altemus, seconded by Mr. Jeffrey, the Committee agreed to accept NEPC's recommendation to consolidate PIMCO Stocks-Plus into the SSgA S & P 500 Cap-Wgt and to reduce weighting to Mellon relative to Wellington by reducing Mellon's Global Alpha allocation from 2.5% to 1.5% and to increase Wellington's OIF allocation from 2.5% to 3.5%.

Mr. Wisloski indicated they will move the 1% out of Mellon as soon as possible, but that it might not be until after November 30th, depending upon the notice that is required.

ITEM 6: Review Investment Guidelines and Investment Manager Benchmarks

Mr. Wisloski indicated the reason why Mr. Considine was not present for the afternoon session. The Committee reviewed and discussed the current guidelines. The Committee decided Ms. Johnson, Mr. Considine and Mr. Wisloski would create a draft of the proposed new guideline format for the Committee to review at the November meeting.

ITEM 7: Economic and Financial Market Dashboard

The Committee discussed the Northern Trust article entitled “If Some Dare Call it Treason, Was Milton Friedman a Traitor?” The Committee discussed the Pensions & Investment article “Managing risk vital for mature pension plans”. Ms. Pearce indicated she will discuss this further with David Driscoll and Chris Levell and discuss some scenarios.

(Mr. Jeffrey left the meeting during this item.)

The Committee discussed the Economic and Financial Market Dashboard and set its 12-month forward expectation for U.S. GDP at 1.0%, and for CPI at 2.5%. The Committee requested that a retrospective review of the positives versus the negatives be prepared for the year.

ITEM 8: Director of Investments Report

Mr. Wisloski indicated the Brandywine guidelines are finished and briefly reviewed the downgrade of securities in the PIMCO portfolio.

Mr. Wisloski indicated as of the close of market October 16, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$1.0000, the Duration Pool NAV was \$0.9571 and the overall Quality D NAV was \$0.9933, up slightly from last month. Mr. Wisloski indicated the Liquidity Pool’s percentage increased to 84.4% from 82.3% of VPIC’s invested amounts, and the Duration Pool decreased to 15.6% from 17.7%, compared to September. Mr. Wisloski indicated the “underwater” amount decreased to \$2.1 million from \$2.2 million. It was indicated the “breakeven” timeframe decreased to 16.5 months from 18.6 months previously.

The Committee reviewed the Up-Market/Down-Market Capture Reports. The Committee discussed providing these reports quarterly. Mr. Altemus requested that the report be provided monthly for another three months.

ITEM 9: Other or New Business

None.

ITEM 10: Adjournment

On a motion from Mr. Mackey, seconded by Ms. Pearce, the Committee unanimously voted to adjourn at 3:30 p.m.

Respectfully submitted,

Monica Chiren, Clerk